



Biennial Report
July 1, 1999 through
June 30, 2001



*assuring safe,
reliable utility
services for all
kentuckians*





Paul E. Patton, Governor
Ronald B. McCloud, Secretary
Public Protection and Regulation
Cabinet
Thomas M. Dorman
Executive Director
Public Service Commission

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PUBLIC SERVICE COMMISSION
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Martin J. Huelsmann
Chairman
Gary W. Gillis
Vice Chairman
Robert E. Spurlin
Commissioner

March 25, 2002

The Honorable Paul E. Patton
Governor
Commonwealth of Kentucky
The Capitol
700 Capitol Avenue
Frankfort, Kentucky 40601

Dear Governor Patton:

The Kentucky Public Service Commission is pleased to submit to you, the members of the General Assembly, and the citizens of Kentucky, our 33rd Biennial Report. This report consists of the various activities, accomplishments and functions of the Public Service Commission during the period July 1999 through June 2001.

The goal of the Public Service Commission is to ensure that all citizens of the Commonwealth receive safe and adequate utility service at fair, just and reasonable rates.

As you well know, the utility industries are continually changing. The Public Service Commission carefully monitors each of these industries, and seeks to be proactive in our approach to the changing regulatory environment. As the industries change, the Public Service Commission is committed to maintaining a positive regulatory environment for the citizens and businesses of the Commonwealth.

Respectfully submitted,

PUBLIC SERVICE COMMISSION OF KENTUCKY

\\S\\

Martin J. Huelsmann
Chairman

\\S\\

Gary W. Gillis
Vice Chairman

\\S\\

Robert E. Spurlin
Commissioner





The Kentucky Public Service Commission

**Biennial Report
July 1, 1999 - June 30, 2001**

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**CABINET FOR PUBLIC PROTECTION AND REGULATION
RONALD B. MCCLOUD, SECRETARY**





The Kentucky Public Service Commission

Biennial Report
July 1, 1999 - June 30, 2001

Introduction

The Kentucky Public Service Commission is charged with regulating the intrastate rates and services of over 1,500 utility companies throughout the state of Kentucky. The Commission was created in Chapter 145 of the Acts of the Kentucky 1934 General Assembly.

The agency is one of 13 within the Public Protection and Regulation Cabinet. Three appointed Commissioners who have quasi-legislative and quasi-judicial duties lead the Commission. It has a staff of 125.

The agency is funded through an assessment paid by utilities within the Commission's jurisdiction. The assessment is based upon annual gross intrastate revenues.

Utilities under PSC jurisdiction include investor-owned electric, natural gas, telecommunications, certain water and sewage utilities, rural electric and telephone cooperatives, and water districts and associations. The PSC does not regulate utilities subject to the control of cities, political subdivisions or those served by the Tennessee Valley Authority.

The mission of the PSC is to ensure that utilities charge fair, just and reasonable rates for the services provided and that those services are adequate, efficient, safe and reliable.

To accomplish this objective, the PSC holds both public meetings and hearings. Public meetings provide the citizens of the Commonwealth an opportunity to express their views on utility issues. Hearings are designed to gather the technical and financial information and the sworn testimony needed by the commissioners to make an informed decision on the cases that come before them.

Rules and procedures in hearings are similar to those used in a court of law. Through these processes, the Commission makes final decisions in cases that affect utility rates, construction, financing, certification, formal complaints brought against utilities and show cause proceedings to determine whether a utility has failed to comply with applicable statutes or regulations.

The Commission performs its regulatory functions through written orders following procedures outlined in Chapter 278 of the Kentucky Revised Statutes and administrative regulations promulgated by the Commission in Chapter 807 of the Kentucky Administrative Regulations.

Changes in PSC jurisdiction have included the removal of municipally owned utilities from Commission authority in 1936 by the Kentucky General Assembly.

In 1950, the legislature transferred street railways from the Commission's jurisdiction to that of the Department of Motor Transportation. In 1964, the PSC's jurisdiction was expanded to include water districts; again in 1972 to include water associations; and in 1975 to include privately owned sewage companies.

In 1987 sanitation districts were removed from Commission jurisdiction. In 1994, the Kentucky Supreme Court in the case of Simpson County Water District v. City of Franklin, Kentucky, Ky., 872 S.W.2d 460 (1994), concluded that the Commission retained jurisdiction to review the wholesale rates of municipal utilities that provide service to jurisdictional utilities.

Commission Organization

Commissioners' Office

The Commission is comprised of three full-time Commissioners, each appointed by the Governor with the consent of the Senate. The Commissioners serve staggered four-year terms.

The Governor names the Chairman, a Vice Chairman to serve in the Chairman's absence, and a Commissioner.

No more than two members may be of the same occupation.

The Commissioners are primarily responsible for reviewing and deciding cases filed with the PSC, issuing regulations, and developing policy.

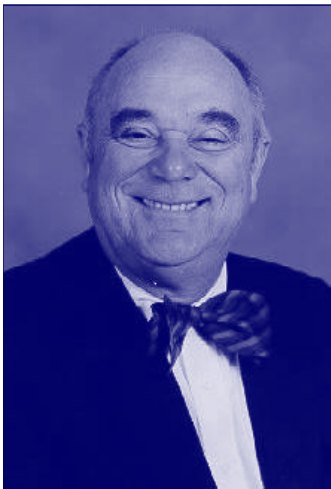
They work with staff to conduct investigations, to hold hearings

and public meetings, and to review testimony and exhibits filed by utilities and other parties that appear before the Commission.

The Commissioners' Office also includes a Hearing Examiner who presides over selected public hearings and a Staff Assistant who advises the three Commissioners on various issues.

PSC Commissioners

Martin J. Huelsmann, Chairman



Chairman
Martin J. Huelsmann

Martin J. "Marty" Huelsmann was appointed Chairman of the Kentucky Public Service Commission August 1, 2000. His appointment ends June 30 of 2004. Before his appointment to Chairman, Marty served as Executive Director of the Kentucky Public Service Commission beginning in January 2000. Chairman Huelsmann serves on the telecommunications committee of the National Association of Regulatory Utility Commissioners.

Chairman Huelsmann brings a broad background and range of experience to the Kentucky Public Service Commission. In 1996, Mr. Huelsmann was asked to serve as Special Deputy Liquidator for Delta Re Insurance Company, and Deputy Liquidator for the much-publicized Kentucky Central Life Insurance Company liquidation.

Chairman Huelsmann has also served as Deputy Secretary for the Kentucky Justice Cabinet, spent many years as Assistant County Attorney in Kenton County, and is currently on leave from his professorship at the Salmon P. Chase College of Law at Northern

Kentucky University, a position he has held since 1970.

Chairman Huelsmann has been recognized for his public and private commitments through numerous awards and appointments. He received the Salmon P. Chase American Inn of Court Award of Excellence, and was named the 1997 Patron of the Year by the Kentucky Peace Officers' Association. He has received three gubernatorial appointments including a 1992 appointment to the Executive Ethics Committee, a 1996 appointment to the Task Force on Education, and in 1998 to the Criminal Justice Council.

In addition, the Supreme Court of Kentucky has appointed Chairman Huelsmann Special Judge of Supreme Court five times, and he has served as councilman for the City of Ft. Mitchell.

Chairman Huelsmann received a BBA degree from the University of Cincinnati and is a graduate of the Salmon P. Chase College of Law at Northern Kentucky University.

Gary W. Gillis, Vice-Chairman

Gary W. Gillis was appointed vice-chairman of the Kentucky Public Service Commission by Gov. Paul Patton on August 1, 2001. His term expires July 1, 2005.

Vice Chairman Gillis was first appointed commissioner of the Kentucky Public Service Commission in 1997. Before joining the PSC, he served as the Kentucky Revenue Cabinet Secretary and as Executive Director of the Kentucky Workers' Compensation Funding Commission.

A Certified Public Accountant, Mr. Gillis has been president of his accounting firm, and a vice president and treasurer for a major construction company.

Vice Chairman Gillis presently is a member of

the National Association of Regulatory Utility Commissioners' electricity committee, NA-RUC observer to the NERC operating committee, and member of the Midwest Independent System Operators Advisory Committee. Since 1997, Mr. Gillis also has been the commissioners' lead person for the partnership with the Republic of Armenia exchange program and has made presentations in Armenia in 1998 and 2001. He has served on many boards and commissions and was vice-chair of the Eastern Kentucky University Board of Regents (1987-1990).

Vice Chairman Gillis attended Transylvania University and received a BBA degree from Eastern Kentucky University.



Vice Chairman
Gary W. Gillis

Robert E. Spurlin, Commissioner

Governor Paul E. Patton appointed **Robert E. Spurlin** Public Service Commissioner effective August 1, 2001.

Prior to this appointment, Commissioner Spurlin served as director of the Coal Workers' Pneumoconiosis Fund and the Division of Special Fund for the Kentucky Labor Cabinet.

A native of Richmond, Kentucky, Commissioner Spurlin served in the United States Air Force and is an Eastern Kentucky University graduate. He was an attorney in private practice in Richmond for 23 years, served on the boards of the Chamber of Commerce and Rotary Club, was president of the Madison County Bar Association, and was a member of the House of Delegates of the Kentucky Bar Association. This marks a return to the Public Service Commission for Mr. Spurlin,

who was a Commissioner from 1972 to 1976. During that tenure he was a member of the National Association of Regulatory Utility Commissioners and served on the board of directors of the Electric Power Research Institute in Palo Alto, CA. Commissioner Spurlin currently serves on the National Association of Regulatory Utility Commissioners' water committee.

Commissioner Spurlin also served as legal counsel and legislative assistant to former Kentucky Governor and U. S. Senator Wendell H. Ford.

A graduate of the University of Kentucky College of Law, Commissioner Spurlin is a University of Kentucky and Kentucky Bar Association Fellow.



Commissioner
Robert E. Spurlin

Executive Director's Office

As Executive Director, **Thomas M. Dorman** serves as the chief administrative officer for the commission.

He is responsible for staff direction and coordination in implementing the programs and duties of the 125 member staff.

Mr. Dorman is assisted in this capacity by **William H. Bowker**, Deputy Executive Director.

The Executive Director's office also schedules hearings, attests commission orders, and responds to specific and general inquiries. The office also includes the public information office.

The Executive Director's office processed 3,721 orders during the 1999-2001 biennium.



Executive Director
Thomas M. Dorman



Secretary of the Commission and Filings Division

The Filings Division, directed by **Stephanie C. Bell**, Secretary of the Commission, consists of the Docket Branch, Annual Reports Branch, Tariffs Branch, Webmaster, GIS Specialist and Information Services Branch.

This division manages all case files, maintains records of Commission proceedings and receives formal filings. It also manages the annual reports and

tariffs that utilities are required to file with the Commission.

A goal for 2001 has been to put all tariffs and annual reports on the Web page for public access.

The Webmaster keeps the PSC Web page up-to-date and provides information to the public.

The GIS Specialist provides information to staff

in the form of maps to support Commission decisions.

The Information Services staff provides data system support to PSC staff and lends expertise on technical issues.

The division serves as a liaison between the public, the Commission and utilities. It is comprised of 24 employees.

Division of Consumer Services

The Division of Consumer Services, led by Director **Virginia L. Smith**, provides informal complaint resolution for the state's regulated utility customers.

The Division of Consumer Services staff's objective is to resolve complaints at the informal level, if possible, instead of a opening formal proceeding.

During the biennium, the division

handled 8,700 informal complaints against utilities. These complaints are received by telephone, fax, letter, e-mail, and walk-ins. During this same period, the division received approximately 60,000 telephone calls from consumers seeking general information or wishing to file a complaint. Many of these calls resulted in dollar savings to customers. Since July 2000, \$310,739.59 has been recovered on behalf of consumers.

The division is also responsible for consumer education and has developed a number of brochures on various issues of importance to consumers. The division also manages the PSC speaker's bureau.

Ginny Smith and her staff of five investigators work closely with utilities to resolve issues before escalation to major issues that would require the commissions' action.

Division of Engineering

The Division of Engineering, directed by **Robert A. Amato, PE**, consists of the Electric Branch, the Communications Branch, the Gas Branch, and the Water and Sewer Branch.

The division is responsible for the service aspects of utility operations. The division conducts service and safety investigations, investigates accidents, per-

forms utility plant inspections, and tests and certifies utility meter standards.

The division provides the Commission with an analysis of all utility requests for construction certificates, changes in depreciation rates, service-related expenses in rate cases, and load management programs.

Additionally, the engineering staff is involved in advising the PSC and outside groups on the technical aspects of utility industry restructuring and deregulation issues.

The division assists in the development of emergency plans to meet service interruptions and administers certain federally-mandated gas safety programs. The division includes 27 employees.

Division of General Counsel

The Division of General Counsel is directed by **Deborah T. Eversole, General Counsel**. It provides legal counsel to the Commission and the staff regarding the legal issues involved in jurisdiction, rate-making, financing, facility construction, quality of service and safety.

The legal staff also advises the PSC on potential legislation and handles the regulatory promulgation process.

Additionally, the attorneys represent the Commission before state and federal courts and federal agencies such as the Federal

Communications Commission and the Federal Energy Regulatory Commission.

The division includes nine attorneys and three support staff.

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Division of Financial Analysis

The Division of Financial Analysis, headed by **Aaron D. Greenwell**, consists of seven branches: the Electric and Gas Rate Design Branch, the Electric and Gas Revenue Requirements Branch, the Water, Sewer, and Telephone Rate Design Branch, the Water and Sewer Revenue Requirements Branch, the Communications Revenue Requirements Branch, the Management Audit Branch, and the Financial Audits Branch.

The division is responsible for providing expert financial advice to the Commission relative to utility requests for rate increases, tariffed rates and services, cost of service studies, rate designs, financing, and acquisitions. Additionally, the division is responsible for management audits, and accounting and financial auditing matters.

Other responsibilities include analyzing and commenting on changes in federal and state policies that could affect Kentucky ratepayers, and implementing new accounting policies.

The division is comprised of 24 employees.

Division of Administrative Services

The Division of Administrative Services is responsible for the production of and adherence to the Public Service Commission's biennial budget. **Donna Gene Dixon** is the division director.

Staff members of the Division process and ensure all receipts, expenditures, fiscal inventory, and personnel actions comply with established policies, procedures, rules, and regulations.

Division staff members also: administer the Equal Employment Opportunity and American's with Disability Acts; coordinate insurance coverage and time and attendance records for Commission employees; operate the telephone switchboard; and provide clerical support to other Divisions within the Commission.

The division includes seven staff members.

Division of Research

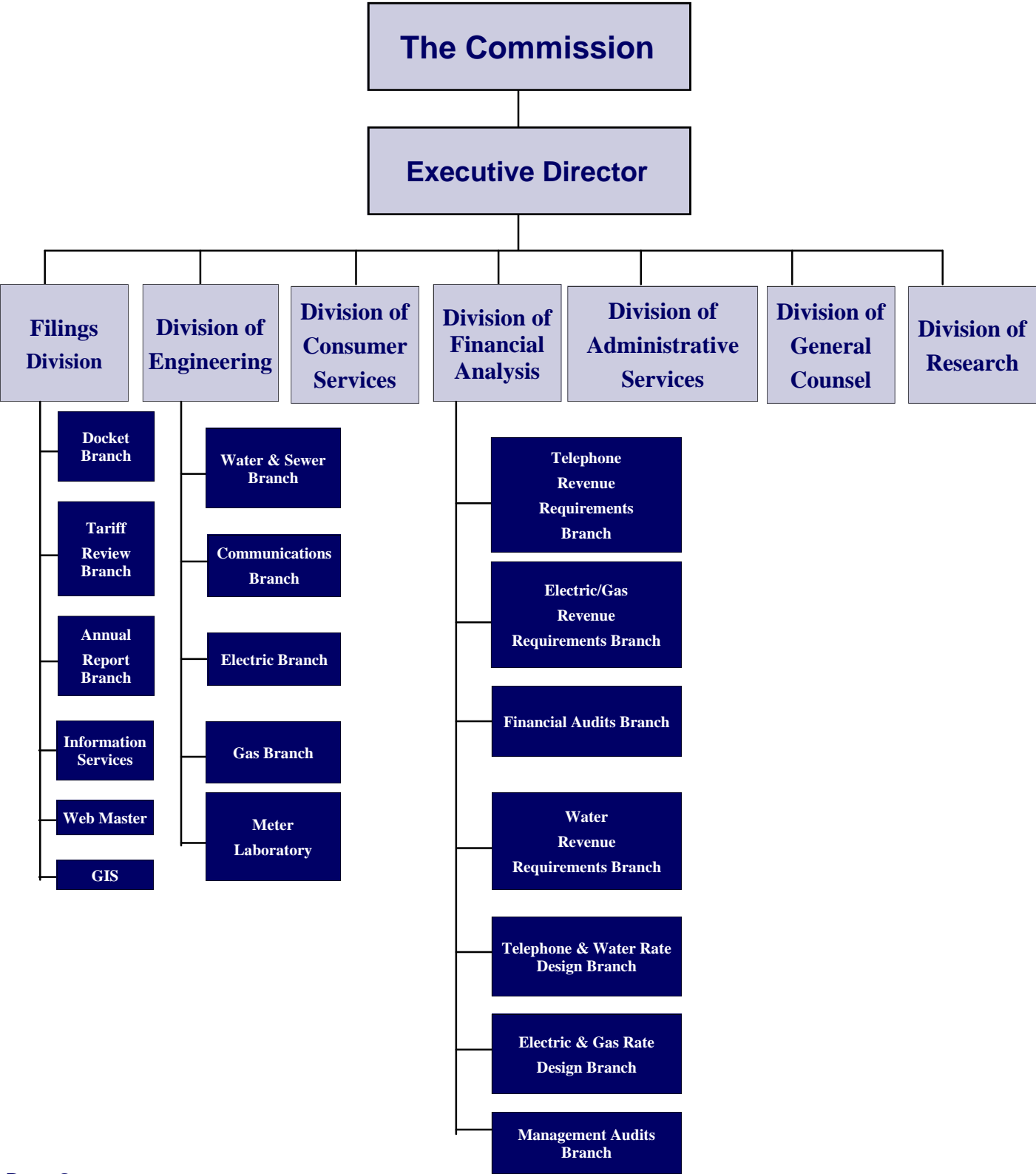
The Division of Research, headed by **Gary L. Forman**, provides support to the Commission and Commission staff through analysis of regulatory matters at the state and national level.

This small group of economists and regulatory analysts track emerging issues and evaluate the potential impact on utility customers and utility regulation in Kentucky. Pending state and federal legislation and agency rulemakings that may significantly affect utility customers in Kentucky are analyzed in depth so the Commission may participate when necessary to support or oppose these actions.

The Research Division participates in economic analysis in cases that involve issues of first impression that come before the Commission.

The division has seven staff members.

PSC Organizational Chart





Staff Directory

All Commission staff may be reached at (502) 564-3940.

To contact a specific division or staff member, please use the following extensions.

Commission Operations

Martin J. Huelsmann, Chairman	202
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Executive Director's Office

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Division of Engineering

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Gas Branch	425
Water and Sewer Branch	409
Meter Laboratory	465

Division of Research

Gary L. Forman, Director	439
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Division of Consumer Services

Virginia L. Smith, Director	404
Consumer Hotline	1-800-772-4636 (1-800-PSC-INFO)

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Water Revenue Req. Branch	232
Telephone & Water Rate Design	214
Electric & Gas Rate Design	237
Management Audits Branch	229

Commission fax number: (502) 564-3460

Complaint Resolution Service and PSC Consumer Hotline

The Public Service Commission is continually working toward the goal of making access to the regulatory process easier and the information it provides more coherent to the public it serves.

Informal Complaint Resolution

Before contacting the PSC, a consumer should first try to resolve his complaint directly with the utility. If the customer has contacted the utility and been unable to resolve the situation, the Consumer Services staff will begin an investigation into the complaint.

Utility customers who contact the commission should be prepared to supply the following information to the Consumer Services staff:

- ◆ Name, number, address, city, county and zip code.
- ◆ The name of the utility representative with whom the customer has already made contact.
- ◆ The complete facts of the complaint, including any supporting documents, bills, letters, etc.
- ◆ Any action the utility took on the complaint.
- ◆ A brief explanation of the solution desired.

The Consumer Services staff assists in resolving a wide range of utility problems including improper termination of service, unauthorized or incorrect charges on utility bills, problems reading meters, customer deposits for utility services, poor quality of service and problems with delayed connection of services.

Although the PSC cannot resolve every complaint to the customer's satisfaction, investigators take prompt action on all complaints, and resolve them appropriately, as determined by the statutes and regulations that apply to the utilities under our jurisdiction.

The Public Service Commission operates a hotline to answer complaints and questions customers have about utility services under PSC jurisdiction. Through this hotline, Consumer Services investigators resolve thousands of complaints through informal means, saving Commission staff and utility customers time and money.

When customers are looking for information about utility services, or would like to report a problem, they can find help by dialing 1-800-772-4636 or 1-800 PSC INFO. The hotline is open 8 a.m. to 5 p.m. Monday through Friday, except for state holidays.

UTILITY HOTLINE
Kentucky Public Service Commission



1-800-772-4636
www.psc.state.ky.us

FORMAL COMPLAINTS

When a complainant feels that only formal action by the Commission can resolve the matter, a formal complaint may be filed. A formal complaint must be made in writing, but an attorney is not required.

In response to a formal complaint, the Commission will require the utility to explain why the complaint cannot be resolved. The Commission also may schedule a formal hearing on the complaint.

Consumer Complaints Filed with the Public Service Commission During the 1999-2001 Biennium

July 1, 1999 to June 30, 2000

	Telephone	Electric	Natural Gas	Water	Sewer
Billing	1184	136	62	65	2
Slamming	779	-0-	-0-	-0-	-0-
Service	595	126	30	88	5
Disconnect	195	104	29	20	3
Non-	220	1	-0-	-0-	-0-
Other	314	88	28	50	1
TOTAL	3287	455	149	223	11

July 1, 2000 to June 30, 2001

	Telephone	Electric	Natural Gas	Water	Sewer
Billing	936	168	109	55	2
Slamming	369	-0-	-0-	-0-	-0-
Service	637	121	74	64	2
Disconnect	525	126	59	35	-0-
Non-	769	4	-0-	-0-	-0-
Other	338	98	37	44	1
TOTAL	3574	517	279	198	5

Technological Improvements

PSC on the World Wide Web

www.psc.state.ky.us

The PSC's Web site offers a wealth of information for consumers, utility personnel, journalists and anyone else needing information about utility services in Kentucky.

The Web site is updated daily, so the information is always the most current available.

The site includes a **General Information** section, with the PSC mission statement, consumer information, recent press releases and current PSC events.

Also listed on the Web site are the current **statutes** and **regulations** that utilities under our jurisdic-

tion are subject to, **Organization of the PSC**, including a staff directory and areas of responsibility.

The Web site also includes a posting of all recent **Commission Decisions**, as well as **Docket Information**, including a complete docket report, a listing of cases filed and closed within the last 30 days, and a hearing schedule.

Citizens will also find **Utility Information** on the Web site, including contact information, utility Web sites and tariffs. Also available are **Utility Service Area Maps**, and **Utility Annual Reports** dating back to 1994.

Additionally, **Forms** for utility filings are posted on the site, as well as information about the Commissioners, and links to other Web sites.

The **Consumer Information** link directs utility customers to information about the division and its services. Consumers may file a complaint on-line or contact the division by e-mail.

A variety of consumer brochures on various issues related to telecommunications, electricity, gas and water service are available for downloading.

Interconnection Agreements

Interconnection agreements are the legal agreements between incumbent local exchange carriers and the competitive local exchange carriers.

The commission recently initiated a program with BellSouth Telecommunications, Inc. to allow the electronic filing of interconnection agreements using the PSC's ftp system.

This allows more expeditious handling of the agreements while also enabling more timely access to the information as it is posted on the PSC's Web site.

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OF KENTUCKY

Significant Cases and Issues

Sweeping changes in gas, electric, and telephone utility industries and new water initiatives in Kentucky greatly increased the volume and complexity of the work of the Commission in the biennium.

Electricity Issues and Cases

The major development in recent years concerning electric utilities has been the creation of a competitive wholesale market and movement about 25 states toward a competitive retail market. The Energy Policy Act of 1992 authorized the Federal Energy Regulatory Commission (FERC) to open up the national electricity grid to wholesale suppliers and also allowed non-utilities and affiliates of utilities to participate for the first time in the power market.

In 1996, FERC through Order 888, required that the transmission system be open to access by non-utilities under nondiscriminatory rates and conditions. In December, 1999, FERC's Order 2000 called for the voluntary creation of Regional Transmission Organizations (RTOs) throughout the United States. FERC's goal was to place all of the nation's transmission systems under regional control and perhaps regional ownership in order to eliminate remaining discriminatory practices, ensure improvements to meet the increasing interstate demands on the transmission systems, and achieve fully competitive wholesale power markets.

The changes in the electric utility industry nationwide have affected Kentucky in a number of ways. In Kentucky, as throughout the United States, electric utilities have merged to position themselves better in national and international energy markets.

Louisville Gas and Electric and Union, Light, Heat and Power (CINergy) joined with several Midwestern utilities in forming an RTO, the Midwest Independent System Operator, while American Electric Power – Kentucky joined with other Midwestern and eastern utilities in forming the Alliance RTO. At the end of FY 2001, the two RTOs had petitioned the Federal Energy Regulatory Commission for approval of their meeting structural and functional requirements for being designated RTOs. East Kentucky Power Cooperative, Big Rivers Electric Cooperative, and the Tennessee Valley Authority began discussing formation of a public power RTO.

The expansion of the competitive wholesale electricity market made Kentucky a prime site for new merchant power plants and raised concerns about potential impacts on the environment, on industrial growth, and on reliability of service to Kentucky's native load.

Merger of LG&E and KU with PowerGen, Case No. 2000-095

On March 15, 2000, British-based utility, PowerGen plc, filed a joint application with Louisville Gas and Electric Company and Kentucky Utilities Company for approval of a merger. The utilities stated that the merger would allow LG&E and KU to better utilize developments in transmission and distribution technology, information systems, and capital markets through the creation of an international company with

consolidated assets of almost \$12 billion and consolidated revenues in excess of \$8.7 billion. Although the cost savings resulting from the merger were anticipated to be minimal, PowerGen committed to establishing its United States headquarters in Kentucky, while maintaining the existing LG&E, KU, and LG&E Energy headquarters.

In approving the merger, the Commission required, and PowerGen agreed, that the commitment to maintain all headquarters in Kentucky would extend for 10 years following the merger. The Commission also required that ratepayers not be liable for any of the premium paid by PowerGen for the LG&E Energy stock, and established extensive reporting requirements and commitments to ensure adequate funding and maintenance of utility transmission and distribution facilities.

The applicants also committed to dedicate LG&E's and KU's low-cost generation to serve native load customers, to maintain their high level of service quality, and to identify and implement a business improvement process based on a benchmarking technique known as "best practices."

The PSC, by order dated May 15, 2000, approved the merger.

Acquisition by E.ON AG of LG&E and KU, Case No. 2001-104

On May 14, 2001, the German-based company E.ON filed a joint application with PowerGen, LG&E Energy, LG&E, and KU for approval of transfer and control of LG&E and KU to E.ON, the third largest industrial group in Germany. E.ON supplies almost 33 percent of the electricity and 30 percent of the natural gas in Germany, while also serving over 25 million electric customers in other countries.

E.ON plans to keep in place the existing management at PowerGen, LG&E Energy, LG&E, and KU. E.ON agreed to be bound by all commitments and obligations undertaken by PowerGen in conjunction with its acquisition of LG&E and KU, and further committed that ratepayers would bear no costs associated with the acquisition by E.ON.

E.ON's commitments related to preserving regulatory assets, maintaining quality of service, insulating ratepayers from merger transaction costs, and regulatory reporting requirements. E.ON also committed to establishing its United States headquarters in Louisville, Kentucky for 10 years. The Commission approved E.ON's acquisition by an Order issued on August 6, 2001.



Union Light, Heat and Power Retail Rates and Wholesale Power Contract, Case No. 2001-058

Pursuant to Ohio PUC policy, Cincinnati Gas and Electric Company, the parent of Union Light, Heat and Power Company (ULH&P), proposed to put its generating assets in an unregulated affiliate and sell its power on the competitive wholesale market. In response to concern about ULH&P's becoming subject to the competitive wholesale market rather than continuing to obtain 100 percent of its needs on contract from CG&E, ULH&P filed, on March 9, 2001, an offer of settlement which, among other things, included a freeze of retail-based electric rates through at least December 31, 2003.

The agreement further provided for a five-year extension, from the end of 2001 through the end of 2006, of the wholesale power contract whereby ULH&P purchases 100 percent of its electricity from CG&E. Retail customers will experience no rate increase due to changes in wholesale cost of power over the 5-year period. Starting in 2004 retail rates can be adjusted, but only to reflect changes in costs providing transmission and distribution service (not generation), and only to the extent such costs exceed approximately \$8 million.

The offer of settlement was filed after more than 6 months of intense negotiations among the utility, customer representatives, and Commission Staff.

A public hearing was held and testimony taken on the merits of the settlement offer. The PSC approved the terms of the settlement, with minor modifications, by Order issued May 11, 2001.

Adequacy of Generation and Transmission, Administrative Case No. 387

On June 19, 2001, Governor Paul E. Patton issued an executive order initiating a moratorium on acceptance of applications for environmental permits and for certificates of public convenience and necessity for new power plants. Governor Patton ordered the Public Service Commission to analyze the impact on the electricity transmission grid of operation of all 24 proposed power plants. In response to the Governor's directive, the Public Service Commission, initiated Administrative Case 387 on July 2, 2001.

Regional Transmission Organization Issues

Pursuant to Federal Energy Regulatory Commission Order 2000, two Regional Transmission Organizations involving utility companies in Kentucky were proposed by utilities. The Midwest Independent System Operator (MISO), would have among its members LG&E/KU and CINergy, the parent of ULH&P. American Electric Power, including its subsidiary AEP/Kentucky, took the lead in forming the Alliance Regional Transmission Organization (ARTO). At this point, Big Rivers Electric Cooperative, East Kentucky Power Company and TVA are uncommitted but are discussing formation of a Public Power Regional Transmission Grid.

The Kentucky Public Service Commission has been extremely active in the stakeholder process for MISO, with Vice Chairman Gary Gillis serving sitting on the Advisory Board as one of three state commission representatives.

Natural Gas Issues and Cases

In the Fall and Winter of 2000-2001, wholesale natural gas prices rose rapidly to unprecedented heights, going from about \$2 per thousand cubic feet (mcf) to over \$9. Also, during the biennium, deregulation of retail natural gas markets continued in a number of states. In Kentucky, the Columbia Gas Customer Choice pilot program got underway in September 2000.

Investigation of Increasing Wholesale Natural Gas Prices, Administrative Case No. 384

In September, 2000, the Commission initiated an administrative proceeding to investigate rapid and large increases in wholesale natural gas prices and their impact on Kentucky natural gas users. The Commission conducted five public

hearings across the Commonwealth to gather information concerning the causes of the price spikes, the utilities' gas procurement practices, and utility and state agency assistance to customers in dealing with higher winter heating bills.

In the final order, the Commission encouraged the major gas utilities to consider innovative approaches to mitigating the volatility in wholesale natural gas prices.



Louisville Gas & Electric Company, General Rate Case – Gas Operations, Case No. 2000-080

On March 30, 2000, LG&E filed an application seeking approval to adjust its gas rates in order to generate additional revenues of \$27.9 million. In addition to the increase in its gas rates, LG&E proposed the establishment of a Weather Normalization Adjustment Clause, to level out the impact on customers bills of extreme weather variations. The utility also prepared an amendment to its tariffs concerning gas main extensions.

In its Final Order, September 27, 2000, LG&E was authorized to increase its gas rates to generate an additional \$20.2 million. These rates relate only to the cost of distributing gas to consumers. The proposed Weather Normalization Adjustment Clause was approved. The revision to the gas main extension policy was denied. LG&E serves 297,625 gas consumers.

Union Light, Heat & Power Company, General Rate Case – Gas Operations, Case No. 2001-092

On June 6, 2001, ULH&P filed an application seeking approval to adjust its gas rates in order to generate additional revenues relating to distribution of gas to customers of \$7.3 million. In addition to the increase in its gas rates, ULH&P asked approval of numerous tariff revisions, most significantly a proposal to establish an Accelerated Main Replacement Program rider. ULH&P proposed to replace all of its cast iron and bare steel gas mains within a 10-year period.

ULH&P requested that, under the rider, it be allowed to earn a return on its incremental investment in the replacement gas mains and recover certain associated net costs through an annual surcharge. ULH&P's approach is designed to avoid the need for its filing numerous, and possibly overlapping, rate cases during the 10-year period.

At the end of FY 2001, the Commission had the case under consideration. ULH&P serves 83,414 gas customers.

Columbia Gas Customer Choice Pilot, Case No. 99-165

On September 18, 2000, customers of Columbia Gas of Kentucky became the first utility customers in Kentucky to be offered the choice of purchasing their natural gas supplies from an entity other than a regulated utility.

Under the terms of a pilot program approved by the Commission on January 27, 2000, customer choice began operating for a period of four years, beginning in September 2000. The pilot program is available to approximately 140,000 residential and small commercial Columbia Gas customers. As of June 30, 2001, nearly 45,000 customers, or approximately 32 percent of those eligible, had enrolled with one of the four Columbia Gas-certified marketers. These customers saved approximately \$1.5 million, or approximately \$70 per enrolled customer per year, in the period November 1, 2000 through June 30, 2001.

Under the terms of the pilot program, Columbia Gas remains responsible for all billing and must stand ready to provide service should an approved marketer fail to deliver gas.

Gas Industry Seminars

In the summer of 2000, Commission Staff conducted training seminars in Bowling Green and Prestonsburg for the personnel of small gas utilities subject to the Commission's jurisdiction. The topics covered included: safety inspections, emergency response plans, applications for approval of financing, applications for approval of construction, rate adjustment applications, tariff filings, gas cost adjustment filings and applications for increases in non-recurring charges. In the summer of 2001, the Commission hosted a seminar at which Commission Staff and members of The Prime Group, a Louisville-based consulting firm, made presentations on gas procurement, managing gas costs, and gas cost adjustment filings.

Telecommunications Issues and Cases

Much of the work of the Public Service Commission during the biennium concerning telecommunications related to changes in the telecommunications industry and data markets in local service and long distance.

Several major cases dealt with the efforts of Kentucky's largest local exchange company, Bell South to enter the long-distance market. Relatedly, a number of proceedings concerned certain requirements that Bell South and other incumbent local exchange carriers must meet under the Act to win Federal Communications Commission approval of their entry into the long distance market. Most of the requirements relate to the companies' demonstrating that they have opened their local markets to competition.

Relatedly, the Public Service Commission annually handles several hundred interconnection agreements among incumbent local exchange carriers and competitors; some of the more contentious ones require arbitration.

BellSouth Application for Entry into Long Distance Market, Case No. 2001-105

In May, 2001, BellSouth filed a request with the Commission for an advisory opinion that the company has met the 14 requirements imposed by the Telecommunications Act of 1996 for sufficiently opening its local markets to competition. Such a finding would support the company's application with the FCC for approval of its providing long distance service in Kentucky. Similar filings are to be made for each state the company serves. The Commission opened Case No. 2001-105 and began the process of evaluating the application.

At the end of FY 2001, the Commission is continuing work on this case.

Arbitration Cases

The Commission has addressed several cases this biennium regarding the relationship between incumbent carriers and new competitive carriers. Many of these cases are arbitrated when the parties are unsuccessful in negotiating their contract terms.

Arbitration cases address pricing issues and conditions of service between carriers. Two major arbitration cases were Case No. 2000-480, concerning Sprint Communications and BellSouth and Case No. 2000-465, involving units of AT&T and BellSouth.

In the Sprint case, on September 13, 2001, the Commission approved the agreement submitted by Sprint and BellSouth. The Commission resolved 11 issues disputed by the parties. The issues decided included collocation of switching equipment in BellSouth facilities, compensation of BellSouth for use of its facilities and for performance of necessary collocation functions, availability to the competitor of custom calling features, provision to competitors of combinations of unbundled network elements that BellSouth typically combines for its own retail customers, and location of interconnection points.

In the AT&T case, on August 13, 2001, the Commission approved the interconnection agreement submitted by AT&T and BellSouth Telecommunications, Inc. The issues decided included many of the same types of issues settled in the BellSouth/Sprint case and similar proceedings and, in addition, involved reciprocal compensation arrangements for calls to internet service providers, assessment of a termination liability charge to a competitor under certain conditions, and electronic or manual provision of operator services/directory assistance routing.



Review of BellSouth Telecommunications, Inc.'s Price Regulation Plan,

Case No. 1999-434

This proceeding continued the Commission's review of the terms and conditions of the price regulation plan under which BellSouth Telecommunications, Inc. has been regulated for the past several years.

On August 3, 2000, the Commission modified the regulation plan which was previously in place. The modifications include the requirement that BellSouth expand its deployment of broadband technologies to the extent that 75 percent of Kentucky access lines in BellSouth's area would be located in central offices which were capable of delivering broadband by the end of December 2002.

In addition, the Commission granted to BellSouth a rate increase of up to 5 percent of its residential revenues with offsetting decreases in other services in each of the next three years. The purpose of these rate increases and other restructuring was to move basic residential rates toward incremental costs and closer to their market price.

Management Audit of BellSouth Price Regulation Plan

A focused management audit was conducted during the period of April 1999 through October 1999 on BellSouth's "price regulation plan" (PRP). The plan had been designed to help facilitate the company's shift into a competitive environment for local telephone service by deviating from traditional earnings based regulation.

Under traditional regulation, rates for services are based upon a utility's earnings. Under the PRP, rates for competitive services, such as multi-line business services, are set in reference to market prices, not earnings. Rates for non-competitive local services were capped until 1998, or until the Commission has established a viable universal service fund.

The Commission used the final audit report as the basis for establishing case number 99-434 to evaluate and to make any necessary changes to BellSouth's PRP.

Water Issues and Cases

The major development concerning water service to Kentuckians during the biennium was Governor Patton's program for water infrastructure development, as provided in House Bill 409. To reach the goal of making potable water and wastewater treatment available to all Kentuckians by 2020, HB 409, sponsored in the 2000 General Assembly by Senator Dan Kelly, encourages consolidation of water systems and regional planning and funding support for infrastructure improvements.

The PSC assisted in the drafting and passage of HB 409 and has long actively supported the regionalization and infrastructure goals expressed in the Act. HB 409 added the PSC as a member of the Kentucky Infrastructure Authority, the agency that administers the water service grants.

In a major proceeding concerning source of water supply for a large number of customers served by Boone Water District in Northern Kentucky, the Commission's decision supported the finding of a regional solution to water supply in the area.

During the biennium, the Commission initiated two large administrative cases involving all water systems in Kentucky under Commission jurisdiction. These cases addressed extension of water to new customers and rates and conditions for providing fire protection service. Also, one major water rate case was conducted. Finally, the Commission continued the very successful series of seminars statewide for water utilities.

**PUBLIC SERVICE
COMMISSION
OF KENTUCKY**

**Boone County Water District
Purchase of Water from
Cincinnati Water Works,
Case No. 2000-206**

In March 2000, Boone County Water District submitted certain agreements that resulted in Cincinnati Water Works (CWW) replacing Northern Kentucky Water District as its exclusive water supplier. CWW proposed to construct a 36-inch pipeline under the Ohio River to a location in Boone County, Kentucky to sell water to the newly formed Boone-Florence Water Commission consisting of Boone County Water District and the city of Florence.

The Commission initiated Case No. 2000-206 to investigate the reasonableness and impacts on rates and service of the proposed water supply arrangements

In its Final Order of November 9, 2000, the Commission found that purchasing water from Cincinnati would not result in unreasonable water purchase costs during the initial years of the water supply agreement but could not conclude that unreasonable water costs would not be incurred over the entire life of the Agreement. The Commission approved the termination agreement between Northern Kentucky, Boone District and Florence.

The Commission commended the parties for their efforts to obtain a regional solution to their supply needs and encouraged Boone District, Florence, and NKWD to explore the feasibility of merging their respective systems to produce a stronger regional system able to serve more efficiently the residents of Northern Kentucky.

**Extension of Water Service,
Administrative Case No. 386**

The Commission established Administrative Case No. 386 on November 11, 2000, to investigate the continued reasonableness of the 40-year-old PSC regulation that requires utilities to extend mains fifty (50) feet or less without charge to a prospective customer who contracts for service for one year or more.

Several water utilities have expressed concern with the cost of these extensions, especially in subdivisions. Some water utilities have stated they do not have funds available to provide 50 feet of service to a group of applicants.

By the end of FY 2001, the Commission had begun an extensive survey of all regulated water utilities and voluntarily participating municipal utilities.

Fire Protection Rates, Administrative Case No. 385

In December, 2000 the Commission established Administrative Case No. 385 to investigate the reasonableness of rates charged for fire protection services, specifically rates for sprinkler connections. This case was initiated due to a request by the Kentucky Association of Fire Chiefs who questioned the reasonableness of the rates charged by some utilities for private fire protection.

At the end of FY 2001, the Commission was continuing to work on the case.

Kentucky American Water Company Rate Increase, Case No. 2000-120

On April 28, 2000, Kentucky-American Water Company filed a rate application with the Commission seeking an increase in its rates to generate an additional \$5 million in average annual revenues, an overall increase of approximately 12.6 percent. The application was later amended to request an increase of \$4.7 million, or 11.7 percent.

On April 9, 2001 the Commission issued an Order authorizing Kentucky-American to increase its rates to produce an increase in its average annual revenues of \$2.6 million. Based on a usage of 5,000 gallons, the average residential bill would increase from \$17.19 to \$18.48 per month, an increase of approximately 7.5 percent. KAWC serves 99,198 customers.

Water Seminars

The Commission developed and conducted ten seminars for water system personnel during the biennium. The seminars were held in different areas of the state in order to encourage attendance from all utilities. These seminars were offered to provide water utilities with information on how to file a rate case, rate design issues, cost of service studies, tariffs, legal issues and other relevant information. Utility response has indicated that the seminars have been of great benefit; the seminars will be continued for the foreseeable future.





Statistics:

Cases Filed and Orders Issued During the Biennium

Type of Case Filed	Number	Type of Orders Issued	Number
Abandonment	2	Abandonment	4
Administrative	6	Administrative	16
Amend Interconnection Agreements	19	Amend Interconnection Agreements	484
Complaints – Rates	16	Complaints – Rates	52
Complaints – Rates, Service	2	Complaints – Rates, Service	20
Complaints – Service	42	Complaints – Service	154
Confidentiality	6	Confidentiality	26
Construct	212	Construct	395
Construct, Finance, 278.023	19	Construct, Finance, Rates, 278.023	27
Construct, Finance, Rates, 278.023	23	Construct, Financing	36
Construct, Financing	14	Construct, Rates, Financing	14
Construct, Rates, Financing	2	Construct, Rates; 278.023	24
Construct, Rates, 278.023	1	Construct, 278.023	1
Construct, 278.023	1	Contracts	40
Contracts	7	Demand-Side Management	29
Demand-Side Management	6	Deviation	70
Deviation	35	Financing	88
Financing	37	Franchises	14
Franchises	15	Initial Operations	35
Initial Operations	10	Integrated Resource Plan	33
Integrated Resource Plan	5	Interconnection Agreement	453
Interconnection Agreement	138	Investigation - Rates	16
Investigation - Rates	2	Investigation – Rates, Service	6
Investigation – Service	88	Investigation – Service	386
Operate, Rates	4	Miscellaneous	78
Other	3	Operate, Rates	21
Rates – ARF	21	Other	54
Rates – FAC	92	Rates – ARF	120
Rates – General	36	Rates – FAC	252
Rates – NRC	32	Rates – General	180
Rates – PGA	179	Rates – NRC	42
Rates – PWA	30	Rates – PGA	191
Surcharge	5	Rates – PWA	35
Tariffs	48	Refund	1
Territory/Boundary	2	Surcharge	34
Training or Certification	11	Tariffs	143
Transfer/Sale/Purchase/Merger	40	Territory/Boundary	4
		Training or Certification	6
		Transfer/Sale/Purchase/Merger	137
Total Cases filed during biennium	1211	Total Orders issued during biennium	3721

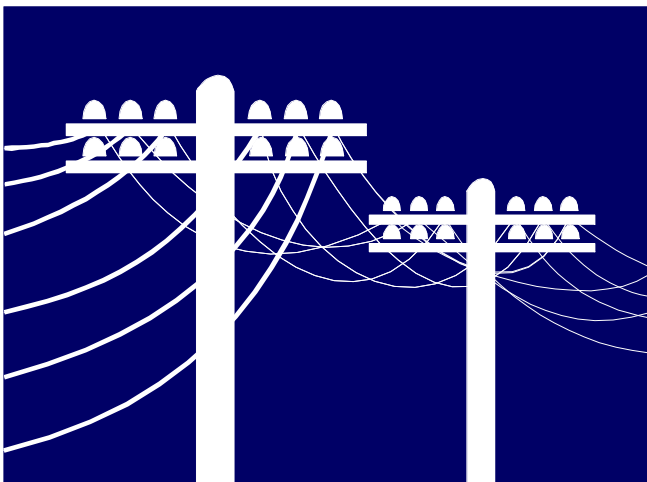
Statistics: Cases Filed and Orders Issued During the Biennium

Listed by Utility Type

Utility Type	Number	Utility Type	Number
Miscellaneous	3	Miscellaneous	78
Investor-Owned Electric	84	Investor-Owned Electric	378
Rural Electric Cooperatives	130	Rural Electric Cooperatives	395
Gas Distribution Utilities	240	Gas Distribution Utilities	483
Intrastate Gas Pipelines	2	Intrastate Gas Pipelines	27
Gas – Safety Only	8	Gas – Safety Only	28
Radio Telephone	57	Radio Telephone	74
Cellular Companies	90	Cellular Companies	129
PCS Companies	31	PCS Companies	
Local Exchange Carriers	197	(Personal Comm. Services)	120
Competitive Local Exchange Carriers	12	Local Exchange Carriers	623
Long Distance Carriers	72	Competitive Local Exchange Carriers	472
Operator Service Providers	2	Long Distance Carriers	246
Privately-Owned Water Companies	11	Operator Service Providers	4
Water Districts	188	COCOT (Pay phones)	3
Water Associations	32	Privately-Owned Water Companies	50
Municipal Water Utilities	3	Water Districts	313
Sewer	33	Water Associations	58
Electric & Gas	14	Municipal Water Utilities	43
Water District & Sewer	2	Sewer	162
		Electric & Gas	17
Total Cases filed during biennium	1211	Private Water & Sewer	13
		Water District & Sewer	4
		Cellular & LEC/CLEC	1
		Total Orders issued during biennium	3721

Statistics: Cases Filed and Orders Issued During the Biennium For Electric Utilities

Type of Case Filed	Number	Type of Orders Issued	Number
Complaints – Rates	7	Complaints – Rates	12
Complaints – Service	6	Complaints – Rates, Service	3
Confidentiality	3	Complaints – Service	28
Construct	15	Confidentiality	12
Contracts	3	Construct	46
Demand-Side Management	6	Construct, Financing	1
Deviation	11	Contracts	17
Financing	15	Demand-Side Management	23
Franchises	6	Deviation	29
Initial Operations	8	Financing	46
Integrated Resource Plan	5	Franchises	5
Investigation – Service	7	Initial Operations	8
Rates – FAC	92	Integrated Resource Plan	33
Rates – General	12	Investigation – Rates, Service	3
Rates – NRC	3	Investigation – Service	40
Surcharge	5	Other	37
Tariffs	18	Rates – FAC	252
Territory/Boundary	2	Rates – General	62
Transfer/Sale/Purchase/Merger	4	Rates – NRC	7
		Refund	1
		Surcharge	33
		Tariffs	58
		Territory/Boundary	4
		Transfer/Sale/Purchase/Merger	30
Total Cases filed during biennium	228	Total Orders issued during biennium	790



Statistics: Cases Filed and Orders Issued During the Biennium For Gas Utilities

Type of Case Filed	Number	Type of Orders Issued	Number
Administrative	1	Administrative	2
Complaints – Rates	2	Complaints – Rates	9
Complaints – Service	6	Complaints – Service	30
Confidentiality	1	Confidentiality	8
Construct	5	Construct	15
Construct, Financing	1	Construct, Financing	9
Deviation	2	Contracts	6
Financing	8	Demand-Side Management	6
Franchises	9	Deviation	11
Investigation – Service	19	Financing	19
Operate, Rates	1	Franchises	9
Other	1	Initial Operations	15
Rates – ARF	3	Investigation – Rates, Service	3
Rates – General	2	Investigation – Service	78
Rates – PGA	179	Operate, Rates	7
Tariffs	4	Rates – ARF	17
Transfer/Sale/Purchase/Merger	6	Rates – General	45
		Rates – PGA	191
		Tariffs	33
		Transfer/Sale/Purchase/Merger	25
Total Cases filed during biennium	250		

Total Orders issued during biennium **538**



Statistics: Cases Filed and Orders Issued During the Biennium

For Telecommunications Utilities

Type of Case Filed	Number	Type of Orders Issued	Number
Administrative	3	Administrative	14
Amend Interconnection Agreements	19	Amend Interconnection Agreements	484
Complaints – Rates	4	Complaints – Rates	13
Complaints – Rates, Service	2	Complaints – Rates, Service	6
Complaints – Service	20	Complaints – Service	65
Confidentiality	2	Confidentiality	6
Construct	179	Construct	309
Deviation	6	Deviation	7
Financing	1	Financing	2
Interconnection Agreement	138	Initial Operations	8
Investigation - Rates	2	Interconnection Agreement	453
Investigation – Service	58	Investigation - Rates	12
Other	1	Investigation – Service	239
Rates – General	10	Other	15
Tariffs	14	Rates – General	2
Transfer/Sale/Purchase/Merger	2	Tariffs	31
		Transfer/Sale/Purchase/Merger	6
Total Cases filed during biennium	461	Total Orders issued during biennium	1672



Statistics: Cases Filed and Orders Issued During the Biennium

For Water Utilities

Type of Case Filed	Number	Type of Orders Issued	Number
Abandonment	1	Abandonment	3
Administrative	2	Complaints – Rates	7
Complaints – Rates	2	Complaints – Rates, Service	6
Complaints – Service	10	Complaints – Service	31
Construct	12	Construct	24
Construct, Finance; 278.023	19	Construct, Finance, Rates, 278.023	27
Construct, Finance, Rates, 278.023	23	Construct, Financing	26
Construct, Financing	13	Construct, Rates, Financing	14
Construct, Rates, Financing	2	Construct, Rates, 278.023	24
Construct, Rates, 278.023	1	Construct, 278.023	1
Construct, 278.023	1	Contracts	17
Contracts	4	Deviation	22
Deviation	15	Financing	21
Financing	13	Initial Operations	2
Initial Operations	1	Investigation - Rates	3
Investigation – Service	4	Investigation – Service	27
Other	1	Operate, Rates	1
Rates – ARF	7	Other	2
Rates – General	12	Rates – ARF	21
Rates – NRC	29	Rates – General	71
Rates – PWA	30	Rates – NRC	34
Tariffs	12	Rates – PWA	35
Training or Certification	11	Surcharge	1
Transfer/Sale/Purchase/Merger	14	Tariffs	21
Total Cases filed during biennium	239	Training or Certification	6
		Transfer/Sale/Purchase/Merger	34
		Total Orders issued during biennium	481



Statistics: Cases Filed and Orders Issued During the Biennium For Sewer Utilities

Type of Case Filed	Number	Type of Orders Issued	Number
Abandonment	1	Abandonment	1
Complaints – Rates	1	Complaints – Rates	11
Construct	1	Complaints – Rates, Service	5
Deviation	1	Construct	1
Initial Operations	1	Deviation	1
Operate, Rates	3	Initial Operations	2
Rates – ARF	11	Investigation - Rates	1
Transfer/Sale/Purchase/Merger	14	Investigation – Service	2
		Operate, Rates	13
Total Cases filed during biennium	33	Rates – ARF	82
		Rates – NRC	1
		Transfer/Sale/Purchase/Merger	42
		Total Orders issued during biennium	162

The information on the preceding pages offers a picture of the operation of the Public Service Commission. Utility annual report statistics and graphs are available on the PSC web site at www.psc.state.ky.us.

Summary of Receipts and Expenditures

Summary of Receipts by Kentucky PSC as of Fiscal Year Ended June 30, 2000. (All amounts rounded to the nearest \$100)

General Fund:

Regular Appropriation	\$10,950,200
Continuing Appropriation	<u>1,497,700</u>
Total	\$12,447,900

Agency Fund:

Receipts for Xerox Copies	\$ 11,500
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Federal Funds:

Gas Pipeline Safety Program	<u>\$ 218,500</u>
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Grand Total	\$12,677,900
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Total of expenditures by Kentucky PSC as of Fiscal Year Ended June 30, 2000. (Rounded to the nearest \$100)

TOTAL \$ 9,287,700

Comparison of Expenditures

	FY00	FY01
Budget	11,165,700	11,091,700
Personnel	6,980,586	7,525,489
Operating	2,307,104	3,024,411

Summary of Receipts by Kentucky PSC as of Fiscal Year Ended June 30, 2001. (All amounts rounded to the nearest \$100)

General Fund:

Regular Appropriation	\$10,876,200
Continuing Appropriation	\$ <u>1,445,600</u>
Total	\$12,321,800

Agency Fund:

Receipts for Xerox Copies	\$ 4,505
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Federal Funds:

Gas Pipeline Safety Program	<u>\$ 206,700</u>
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Grand Total	\$12,533,005
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Total of expenditures by Kentucky PSC as of Fiscal Year Ended June 30, 2001. (Rounded to the nearest \$100)

TOTAL \$10,549,900

Paid for with state funds